

## Brincat Anna at Parlament-MT

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**From:** Mercieca Keith at NAO  
**Sent:** Tuesday, February 9, 2021 5:24 PM  
**To:** Brincat Anna at Parlament-MT  
**Cc:** Deguara Charles at NAO; Camilleri Noel at NAO; Stivala Maressa at NAO; Vella Josephine at NAO  
**Subject:** PAC\_EGM19  
**Attachments:** PAC\_EGM19.docx

Dear Anna,

Attached please find a reply to PAC\_EGM19. This corresponds to a request for information made by the PAC to the NAO during the sitting held on 3 February 2021.

Replies to other pending queries will be submitted in due course, as we are still in the process of sourcing all the relevant information.

Regards,  
Keith

### Keith Mercieca

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**PAC\_EGM19 | Jekk hemmx konsegwenzi penali kemm-il darba Enemalta tiddeċiedi li tvarja l-obbligu li tixtri 80% minn dak li tiġġenera l-power station ta' ElectroGas;**

- 1 | The NAO was requested to inform the PAC whether there were penalty clauses payable if Enemalta decided to vary its adherence to the obligation to purchase 80 per cent of the energy generated by the ElectroGas power station.
- 2 | In sum, the contracts entered by Enemalta and ElectroGas Malta Ltd establish a penalty clause applicable in instances when Enemalta varies its adherence to the obligation of the purchase of agreed contract volumes. This is captured in the take or pay obligations set out in the Implementation Agreement. Amounts payable would be determined through reference to the value of the commodity for the relevant supply reference period and the quantity of gas not taken. However, Enemalta has mechanisms in place that allow for mitigation, namely through the postponement of obligations to take gas quantities (Enemalta Make Up Gas) and the sale of gas to third parties (Enemalta Mitigation Sale).

*Background information*

- 3 | In the draft Power Purchase Agreement and Gas Supply Agreement, made available to prospective bidders at the Request for Proposals stage, the quantity of take or pay was to be of net electrical output and gas, and was to be 85 per cent of the annual contract power and the annual contract quantity, respectively.
- 4 | These provisions were eventually revised following the award of the contracts to ElectroGas Malta Ltd. Through the Implementation Agreement, Enemalta committed to buy minimum volumes of electrical output and gas to allow ElectroGas Malta Ltd to enter into long-term LNG supply agreements essential for the performance of its obligations. This commitment was governed by a take or pay obligation, requiring Enemalta to consume or pay for established quantities of gas over stipulated supply reference periods. Enemalta could opt to consume these quantities as either gas for the Delimara 3 plant or as electricity dispatched from Delimara 4.
- 5 | For each supply reference period, a quantity of gas that was to be equal to the Enemalta contract quantity applicable to that reference period was to be established. The quantity of gas calculated would constitute the Enemalta Take or Pay Quantity. In the LNG supply term, the contract volume, and therefore the Enemalta Take or Pay Quantity, was 14,000,000 mmBTU annually.
- 6 | During the Fixed Price LNG Supply Term, which term is currently in effect, the supply reference period consisted of quarters, with the Enemalta contract quantity consisting of the contract volume in that quarter and any upward revisions effected by Enemalta (not to exceed 2,000,000 mmBTU in any given year). For the quarters commencing on 1 January and 1 October during the fixed price LNG supply term, the contract volume specified was 3,000,000 mmBTU. For the quarters commencing on 1 April and 1 July during this term, the contract volume was 4,000,000 mmBTU (Figure 1 refers).

Figure 1 | Annual contract volume

Quarter commencing 1 January	Quarter commencing 1 April	Quarter commencing 1 July	Quarter commencing 1 October	Contract volume
3,000,000 mmBTU	4,000,000 mmBTU	4,000,000 mmBTU	3,000,000 mmBTU	14,000,000 mmBTU

- 7 | In the Indexed Price LNG supply term, the contract volume was 14,000,000 mmBTU for each gas year. However, during the Indexed Price LNG Supply Term, each supply reference period was of one year, instead of the quarterly supply reference period applicable in the Fixed Price LNG Supply Term.
  
- 8 | ElectroGas Malta Ltd was to establish the portion of the Enemalta Take or Pay Quantity not availed of during the supply reference period, which quantity was to be referred to as the Enemalta Take or Pay Deficiency.
  
- 9 | The Enemalta Take or Pay Deficiency payment was to be calculated through reference to the applicable average effective commodity price for the relevant supply reference period and the quantity of gas not taken. Details regarding the method of calculation of the Enemalta Take or Pay Deficiency Payment to be made during any Supply Reference Period are presented in Appendix 1.
  
- 10 | Also considered in the Implementation Agreement was the possibility for Enemalta to recover a portion of the Take or Pay Deficiency that arose in the previous supply reference period through a quantity of gas and equivalent net electrical output, referred to as Enemalta Make up Gas. The Enemalta Make up Gas was not to exceed one third of the Enemalta Take or Pay Quantity of the preceding Supply Reference Period and could not exceed the relevant Enemalta Take or Pay Deficiency. The Enemalta Make up Gas was not to be taken into account when determining the Enemalta Take or Pay Quantity (for the purpose of determining whether there was an Enemalta Take or Pay Deficiency) in the supply reference period in which it was taken.
  
- 11 | A further consideration was the possible sale of LNG, through an Enemalta Mitigation Sale, corresponding to the Enemalta Take or Pay Deficiency arising in a particular supply reference period. ElectroGas Malta Ltd was to, on request by Enemalta, use reasonable efforts to sell to third parties an amount of LNG nominated by Enemalta. This amount was not to exceed two thirds of the Enemalta Take or Pay Quantity in a particular supply reference period and was not to exceed the Enemalta Take or Pay Deficiency, taking into consideration Enemalta Make up Gas. Within 30 days of an Enemalta Mitigation Sale, ElectroGas Malta Ltd was to pay Enemalta an Enemalta LNG credit. The Enemalta LNG credit was to be determined through the addition of the proceeds and any savings obtained by ElectroGas Malta Ltd from the sale, less any incremental costs and taxes incurred. In addition, ElectroGas Malta Ltd was to deduct 2.5 per cent of the difference between the proceeds and the amount paid by Enemalta for the LNG.

## Appendix 1 | Calculation of the Enemalta Take or Pay Deficiency Payment

- 12 | The following is the calculation for the Enemalta Take or Pay Deficiency Payment to be made during any Supply Reference Period in the Implementation Agreement:

$$EToPP_s = GASP_s \times EToPS_s$$

Where:

- EToPP<sub>s</sub> means the Enemalta Take or Pay Deficiency Payment during a Supply Reference Period;
  - GASP<sub>s</sub> means the applicable average Effective Commodity Price for the relevant Supply Reference Period calculated as per below; and
  - EToPS<sub>s</sub> means the Enemalta Take or Pay Deficiency as calculated by ElectroGas Malta Ltd.
- 13 | The applicable average Effective Commodity Price for the relevant Supply Reference Period, GASPS, was to be calculated through reference to the value and the total quantity of the gas billed during the relevant Supply Reference Period, as follows:

$$GASP_s = TBV_s / TBQ_s$$

Where:

- TBV<sub>s</sub> means the value of gas billed by ElectroGas Malta Ltd to Enemalta during the relevant Supply Reference Period; and
  - TBQ<sub>s</sub> means the total quantities of gas for which ElectroGas Malta Ltd has billed Enemalta during the relevant Supply Reference Period.
- 14 | The value of gas billed by ElectroGas Malta Ltd to Enemalta during the relevant Supply Reference Period, TBV<sub>s</sub>, was to be calculated as the sum of the value of gas billed for Net Electrical Output delivered to the Network Connection Point and gas delivered at the Delimara 3 Connection Point, as follows:

$$TBV_s = TBVP_s + TBVG_s$$

Where:

TBVP<sub>s</sub> means the total value of gas billed by ElectroGas Malta Ltd to Enemalta during the relevant Supply Reference Period for Net Electrical Output delivered to the Network Connection Point in accordance with the Implementation Agreement and the Power Purchase Agreement; and TBVG<sub>s</sub> means the total value of gas billed by ElectroGas Malta Ltd to Enemalta during the relevant Supply Reference Period for gas delivered at the Delimara 3 Connection Point in accordance with the Implementation Agreement and the Gas Supply Agreement.

- 15 | The total value of gas billed by ElectroGas Malta Ltd to Enemalta during the relevant Supply Reference Period for Net Electrical Output delivered to the Network Connection Point, TBVP<sub>s</sub>, shall be calculated through reference to the Effective Commodity Price, the Guaranteed Delimara 4 Heat Rate, the Net Electrical Output and Imported Electricity, as follows:

$$TBVP_s = \sum_s GASP_M \cdot \sum_M \{ (N_H - IMP_H) \cdot R_H \}$$

Where:

- GASP<sub>M</sub> means the Effective Commodity Price in €/mmBTU in calendar month M or part calendar month M;
- R<sub>H</sub> means the Guaranteed Delimara 4 Heat Rate for hour H adjusted for Actual Ambient Conditions;

- $\sum_S$  means the summation of all the corresponding results in each month for the relevant Supply Reference Period;
- $\sum_M$  means the summation of all the corresponding results in each hour for the relevant calendar month M or part calendar month M;
- $N_H$  means the Net Electrical Output in MWh for the hour H;
- $IMP_H$  means the Imported Electricity in MWh for the hour H.

16 | The total value of gas billed by ElectroGas Malta Ltd to Enemalta under the Gas Supply Agreement for the relevant Supply Reference Period,  $TBVG_S$ , was to be calculated through reference to the Gas Availability Payments made, as follows:

$$TBVG_S = \sum_S GAS_{Y,M}$$

Where:

$GAS_{Y,M}$  means the Gas Availability Payment in billing period M in the Gas Supply Agreement contract year Y (expressed in €).

17 | The total quantities of gas for which ElectroGas Malta Ltd has billed Enemalta during the relevant Supply Reference Period,  $TBQ_S$ , was to be calculated through reference to the Net Electrical Output, Imported Electricity, the Guaranteed Delimara 4 Heat Rate and gas delivered, as follows:

$$TBQ_S = \sum_S (\sum_H \{N_H - IMP_H\} R_H) + \sum_S (\sum_H GD_H)$$

Where:

- $N_H$  means the Net Electrical Output in MWh for the hour H;
- $IMP_H$  means the Imported Electricity in MWh for the hour H.
- $R_H$  means the Guaranteed Delimara 4 Heat Rate for hour H adjusted for Actual Ambient Conditions;
- $\sum_S$  means the summation of all the corresponding results in each month for the relevant Supply Reference Period;
- $\sum_H$  means the sum over the hours in billing period M; and
- $GD_H$  means the gas delivered in hour H in mmBTU at the Delimara 3 Connection Point.